

Message Text

UNCLASSIFIED

PAGE 01 OTTAWA 00212 01 OF 02 232244Z

63

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UNCLAS SECTION 1 OF 2 OTTAWA 0212

POUCHED FOR INFO ALL CONGENS IN CANADA

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SUBJECT: ENERGY: FEDERAL-PROVINCIAL ENERGY CONFERENCE

FOLLOWING CONSTITUTES EMBASSY SUMMARY OF OPENING STATEMENTS AND POSITIONS OF FEDERAL GOVERNMENT AND EACH OF PROVINCES AS PRESENTED BY PM TRUDEAU AND PROVINCIAL PREMIERS AT JANUARY 22 MORNING SESSION (CARRIED LIVE BY CBC TELEVISION) OF CONFERENCE OF FIRST MINISTERS ON CANADIAN ENERGY.

1. PRIME MINISTER TRUDEAU (CHAIRMAN OF CONFERENCE) OPENED BY STATING THAT MEETING WAS ONE OF MOST IMPORTANT EVER HELD AMONG FIRST MINISTERS. HE SAID OWNERSHIP OF NATURAL RESOURCES RESTS WITH PROVINCES AND THAT "NORMALLY SPEAKING" WITH OWNERSHIP GOES THE CUSTOMARY RIGHT TO RECEIVE A REASONABLE PRICE. HOWEVER, HE QUESTIONED WHETHER SUCH PRICE SHOULD BE WORLD PRICE WHICH WOULD ALLOW PRODUCING PROVINCES TO RECEIVE REVENUES ALLOWING THEM CAPACITY TO SPEND THREE OR FOUR TIMES AS

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PAGE 02 OTTAWA 00212 01 OF 02 232244Z

MUCH AS OTHER PROVINCES, A SITUATION WHICH GOES "TO THE

VERY HEART OF OUR FEDERAL SYSTEM." HE CLAIMED AS MATTER OF PRINCIPLE THAT WHOLE OF CANADA SHOULD BE OPENED UP AS MARKET FOR CANADIAN OIL AND THAT WHILE FEDERAL GOVERNMENT RECOGNIZES LEGITIMATE INTERESTS OF BOTH PROVINCIAL GOVERNMENTS AND PRIVATE COMPANIES GOC IS DETERMINED TO SAFEGUARD INTERESTS OF CANADIAN CONSUMER. SUCH PROTECTION INCLUDES ONE PRICE FOR GAS AND OIL (AFTER ALLOWING FOR SOME REGIONAL TRANSPORTATION COST DIFFERENCES) AND AN ORDERLY AND PHASED INCREASE IN PRICES WHICH MUST RISE (ALTHOUGH NOT TO WORLD LEVELS) TO ASSURE FUTURE SUPPLY POSSIBILITIES. FURTHER, GOC MUST RETAIN REASONABLE PORTION OF HIGHER PRICE REVENUES TO INVEST ON PUBLIC BEHALF IN ENERGY DEVELOPMENTS FOR THE FUTURE. HE ESTIMATED THAT INVESTMENT OVER COMING YEARS BY CANADIAN GOVERNMENTS AND COMPANIES WILL HAVE TO AVERAGE MORE THAN \$3 BILLION ANNUALLY. TRUDEAU THEN DESCRIBED ALBERTA OIL SANDS AS "TRULY STRATEGIC RESERVE" WHICH MUST BE DEVELOPED WITH INTERESTS OF WESTERN CANADA AND ALL OF CANADA IN MIND AND THAT GOC COMMITTED TO ASSIST IN DEVELOPMENT OF OIL SANDS TO ASSURE NATIONAL ENERGY SUPPLIES AND AS LEVER TO ENCOURAGE DIVERSIFIED GROWTH OF WESTERN CANADA. IN CONCLUSION, TRUDEAU EMPHASIZED POINT THAT "IN ALL RESPECTS, WE HAVE ONE INSTRUMENT OF EQUITY THAT IS COMMON TO ALL CANADIANS -- THE GOVERNMENT OF CANADA. I INTEND THAT WE WILL USE IT -- ALWAYS AWARE OF THE RIGHTS, POWERS AND PROPERTY OF PROVINCIAL GOVERNMENTS -- BUT USE IF EFFECTIVELY TO PROMOTE THE BASIC INTERESTS OF ALL THE PEOPLE OF THIS COUNTRY."

2. PRINCE EDWARD ISLAND (CAMPBELL): EMPHASIZED NEED FOR MEASURES WHICH WOULD NOT RESULT IN GREATER REGIONAL ECONOMIC DISPARITIES AND SECURITY OF OIL SUPPLIES (PEI 100 PERCENT DEPENDENT ON OIL FUEL FOR ELECTRIC GENERATION). IN LATTER CONNECTION, CAMPBELL CALLED FOR REVERSIBLE PIPELINE TO MARITIMES TO HOOK UP WITH EXTENSION OF PIPELINE TO MONTREAL. WHILE ACCEPTING PRICE INCREASES AS ECONOMIC FACT, HE INSISTED ON ONE-PRICE POLICY FOR CANADA AND FOR FEDERAL ASSISTANCE TO REGIONS EXPERIENCING UNACCEPTABLY HIGH COSTS, SUCH AS MARITIMES. ONE METHOD TO ASSIST IN REACHING REASONABLE POWER COSTS, HE SAID, UNCLASSIFIED

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PAGE 03 OTTAWA 00212 01 OF 02 232244Z

IS CONSTRUCTION OF NATIONAL ELECTRIC POWER GRID AND ENCOURAGEMENT TO ATLANTIC OFF-SHORE EXPLORATION. FOR LATTER, QUESTIONS OF FEDERAL-PROVINCIAL JURISDICTION MUST BE RESOLVED.

3. ONTARIO (DAVIS): PRESENT ENERGY PROBLEMS ARE OF DISTRIBUTION AND PRICE RATHER THAN OF SUPPLY AND CONCERN SHOULD BE DIRECTED TO PREVENTION OF PROLIFERATION OF

REGIONAL DISPARITIES. DAVIS IDENTIFIED ESSENTIAL ELEMENTS OF NATIONAL ENERGY POLICY AS:

(A) ASSURED SUPPLY OF CANADIAN ENERGY INVOLVING EXPANSION OF DISTRIBUTION SYSTEM, DEVELOPMENT OF OIL SANDS, COAL GASIFICATION, ARCTIC OIL RESOURCES, STIMULATION OF FRONTIER AND OFF-SHORE EXPLORATION, AND EXPANDED USE OF NUCLEAR POWER.

(B) NATIONAL COMMITMENT TO RETENTION -- CONSISTENT WITH EXISTING EXPORT CONTRACTS -- OF KNOWN AND LOW-COST ENERGY SOURCES.

(C) ONE BASE PRICE FOR ALL CANADIANS. PRICE MUST BE "REASONABLE" IN RELATION TO WORLD AND U.S. PRICES AND ANY INCREASES MUST BE PHASED AND GRADUAL.

(D) PRICING POLICY SHOULD ALLOW PRODUCERS REASONABLE INCENTIVES TO FIND NEW RESERVES BUT WOULD QUESTION INCREASE IN PRICE PAID TO PRODUCERS FOR OIL AND GAS PRESENTLY DISCOVERED AND FLOWING.

(E) PRODUCING PROVINCES SHOULD RECEIVE REASONABLE REWARDS ASSOCIATED WITH RESOURCE OWNERSHIP, BUT NOT TO EXTENT THEY SHARPLY PENALIZE CANADIAN CONSUMERS OR DISRUPT ECONOMY.

(F) GREATER DEGREE OF SELF-SUFFICIENCY IN PRODUCTION OF THOSE PRODUCTS DEPENDENT UPON PETROLEUM AS A RAW MATERIAL.

PREMIER DAVIS ALSO SAID ONTARIO IS SEEKING SECURITY OF SUPPLY AND REDUCTION OF DEPENDENCY ON COAL IMPORTS FROM
UNCLASSIFIED

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PAGE 04 OTTAWA 00212 01 OF 02 232244Z

U.S. THEREFORE, ONTARIO HYDRO IS BEING ENCOURAGED IN VENTURE TO USE WESTERN CANADIAN COAL (UP TO 5 MILLION TONS YEARLY IF BURN TESTS ARE SUCCESSFUL) EVEN THOUGH COST COULD BE 50 PERCENT HIGHER THAN U.S. SOURCES. IN SLIGHT DIVERSION, DAVIS SAID IT WOULD BE IN NATIONAL INTEREST IF CANDEL TO FEBRUARY 11 WASHINGTON ENERGY CONFERENCE INCLUDED PROVINCIAL REPRESENTATION.

4. SASKATCHEWAN (BLAKENEY): SUGGESTED THAT NATIONAL ENERGY POLICY MUST BE CONSIDERED IN FRAMEWORK OF A NATIONAL DEVELOPMENT POLICY WHICH IN TURN HAS TWO

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PAGE 01 OTTAWA 00212 02 OF 02 232300Z

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ACTION EUR-25

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UNCLAS SECTION 2 OF 2 OTTAWA 0212

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CORNERSTONES: PRINCIPLE OF EQUALIZATION (I.E., CONCEPT THAT ALL CANADIANS HAVE ACCESS TO ESSENTIAL GOODS AND SERVICES WITH COSTS SHARED ON ABILITY TO PAY) AND COMMITMENT TO ELIMINATE OR REDUCE REGIONAL INEQUALITIES. BLAKENEY THEN DESCRIBED CASE MADE AT WESTERN ECONOMIC OPPORTUNITIES CONFERENCE AT CALGARY LAST JULY: ASSISTANCE IN ESTABLISHING SECONDARY INDUSTRY, REMOVAL OF RAIL FREIGHT RATE DISCRIMINATION, SUPPORT FOR STABILITY TO AGRICULTURAL INDUSTRY. HE SAID PROGRESS ON THESE REQUESTS HAS BEEN "VERY SMALL". THEREFORE, HE SAID, SASKATCHEWAN MUST LOOK TO ITS OWN WEALTH IN RESOURCES -- DEPLETING RESOURCES -- FOR ASSISTANCE BY:

- (A) ENSURING THAT CONTROL OF OIL IS FIRMLY INVESTED IN PEOPLE OF THE PROVINCE;
- (B) CONSERVING OIL FOR FUTURE PROVINCE USERS;
- (C) RETAINING INCREASES IN VALUE OF OIL;
- (D) INCREASING RESERVES BY STEPPING UP EXPLORATION.

NEVERTHELESS, HE SAID, SASKATCHEWAN WILL NOT CURTAIL PRODUCTION DURING PRESENT SHORTAGES. HOWEVER, SASKATCHEWAN IS NOT PREPARED TO SUBSIDISE A LOWER-THAN-UNCLASSIFIED

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PAGE 02 OTTAWA 00212 02 OF 02 232300Z

WORLD PRICE FOR CANADIAN OIL BY UNDER-VALUING THE OIL ITSELF; SUBSIDY SHOULD BE MET FROM TAX REVENUES BASED ON ABILITY TO PAY.

5. BRITISH COLUMBIA (BARRETT): PROPOSED FOLLOWING:

- (A) PROHIBITION ON ANY INCREASE IN OIL AND GAS EXPORTS TO U.S. EXCEPT FOR SHORT-TERM GAS SUPPLIES TO AREAS CRITICALLY DEPENDENT ON CANADIAN SOURCES FOR ESSENTIAL NEEDS.
- (B) MAINTENANCE OF FULL COMPETITIVE ENERGY VALUE FOR PRINCING OF ALL GAS AND OIL SOLD TO U.S.
- (C) ESTABLISHMENT OF ENERGY PRICE STABILIZATION FUND TO BE MAINTAINED BY PRODUCING PROVINCES BY PAYMENT INITIALLY OF 50 PERCENT OF INCREMENT IN VALUE OF THEIR GAS AND OIL SOLD TO U.S. SINCE LAST SEPTEMBER, SUCH CONTRIBUTION TO DECLINE BY 10 PERCENT ANNUALLY AND CEASING ENTIRELY BY END OF 1978.
- (D) SUBSIDIZATION FROM ABOVE FUND (AT ANNUALLY DECLINING RATE OVER 5-YEAR PERIOD) OF THOSE PROVINCES RELIANT ON IMPORTED ENERGY WHOSE GOVERNMENTS HAVE ESTABLISHED EFFECTIVE OIL MARKETING BOARDS WHICH CAN ENSURE THAT NO PART OF SUBSIDY WILL GO TO POCKETS OF OIL INDUSTRY.
- (E) RESTRUCTURING FEDERAL CORPORATE AND INCOME TAXES TO RECOVER PROFITS NOW BEING REALIZED BY OIL INDUSTRY IN EXCESS OF FAIR RATE OF RETURN.

6. NOVA SCOTIA (REGAN): URGED SEIZURE OF "UNPRECEDENTED OPPORTUNITIES TO BE COMPETITIVE IN INTERNATIONAL TRADE THROUGH A ONE-CANADA LOW ENERGY COST POLICY," THUS COMBATING REGIONAL INEQUALITIES THROUGH BALANCED COAST-TO-COAST ECONOMIC GROWTH. REGAN STATED FURTHER THAT IT FUNDAMENTAL TO CONSIDER ONLY CANADIAN CONDITIONS IN DETERMINING PRICE OF CANADIAN OIL AND NOT "SYNTHETIC" INTERNATIONAL PRICES AND THAT OIL COMPANIES SHOULD NOT BE ALLOWED ANY WINDFALL PROFITS. HE SAID COMPANIES WERE ALREADY SATISFIED WITH RATES OF RETURN BEFORE OPEC INCREASES AND IF THEY DO NEED GREATER MARGINS FOR ACCELERATED EXPLORATION AND DEVELOPMENT SPECIAL INCENTIVES, SUCH AS TAX HOLIDAYS, COULD BE PROVIDED. WHILE RECOGNIZING RIGHT OF PRODUCING PROVINCES TO INCREASE ROYALTIES, REGAN

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 00212 02 OF 02 232300Z

SAID IN TIMES OF EMERGENCY, SUCH AS NOW EXIST, FEDERAL GOVERNMENT HAS RIGHT OF PRICE CONTROL AND IN FACT PRICE OF CANADIAN OIL SHOULD BE EQUALIZED "VERY NEAR TO THE PRESENT DOMESTIC PRICE." REGAN APPLAUDED OIL EXPORT TAX, BUT SAID IT WRONG TO SET PERCENTAGE TO CERTAIN PROVINCES.

CONCLUDING, REGAN SIAD A COAST-TO-COAST REVERSIBLE PIPE-LINE IS VITAL ONCE A NATIONAL EQUALIZED CRUDE OIL PRICE IS ACCEPTED.

7. MANITOBA (SCHREYER): EMPHASIZED THAT CANADIANS WANT TO SEE STRONG PUBLIC PRESENCE IN ENERGY FIELD AND ADVANCE OF CONCEPT OF ENERGY AS PUBLIC UTILITY, CONTROLLED BY FEDERAL GOVERNMENT. TO MEET THESE DESIRES, HE URGED STRENGTHENED AND BROADENED NATIONAL ENERGY BOARD OPERATING AS A PLANNING BOARD, DIRECT FEDERAL INVOLVEMENT THROUGH A NATIONAL PETROLEUM COMPANY, AND DIRECT PUBLIC ACCOUNTABILITY OF OIL PRICING BY PRODUCING CORPORATIONS. SCHREYER ALSO STATED THERE IS NO IMMEDIATE REASON WHY PRICE FREEZE SHOULD LAPSE AND PRICES RISE TO WORLD LEVEL. IN LONGER RUN, PRICES AT ANY GIVEN WELL-HEAD LEVEL SHOULD BE UNIFORM FOR ALL CANADIANS. FURTHER, HE ADVOCATED PRINCIPLE THAT PRICE SHOULD NOT HARM POTENTIAL FOR GROWTH OF PETROCHEMICAL AND HIGHER INTENSIVE INDUSTRY IN WESTERN CANADA.

8. NEW BRUNSWICK (HATFIELD): CALLED FOR IMMEDIATE SUBSIDY OF FUEL AND GASOLINE PRICES IN ATLANTIC CANADA AND SAID PRINCIPLE OF ONE-PRICE SYSTEM FOR CANADA IS NOT NEGOTIABLE. EQUALLY NOT ACCEPTABLE, IS POSTPONEMENT TO VAGUE FUTURE OF REVERSIBLE PIPELINE TO MARITIMES. DECLARED NEW BRUNSWICK'S READINESS NOW TO EXPLOIT DEEP-WATER DOCKING FACILITIES AND HAVE OIL COMPLEX TO SERVE EASTERN CANADA (HE SAID LAND AT ST. JOHN IS ACQUIRED, ZONED, SITE PREPARED, AND ENVIRONMENTAL IMPACT STUDIES COMPLETED).

9. QUEBEC (BOURASSA): MADE FOLLOWING MAJOR POINTS:

(A) CANADA CAN ONLY SPEAK OF RELATIVE SELF-SUFFICIENCY IN TERMS OF 15-20 YEARS AS EVEN OIL SANDS WILL BARELY SUFFICE TO MEET NEEDS OF WESTERN CANADA AND ONTARIO. THEREFORE, CLOSE STUDY IS UNCLASSIFIED

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PAGE 04 OTTAWA 00212 02 OF 02 232300Z

NEEDED ON CONDITIONS WHICH WOULD OFFER BEST CHANCE TO IMPROVE SUPPLY SECURITY ON WORLD MARKETS.

(B) PRICE OF OIL SHOULD BE SUCH THAT CONSUMERS COMPELLED TO OBTAIN THEIR SUPPLY FROM WORLD MARKET WOULD BE ON PART WITH OTHER CANADIAN CONSUMERS BENEFITTING FROM CANADIAN OIL.

(C) NEED FOR INTERGOVERNMENTAL BODY IN CANADA TO PLAN NATIONAL ENERGY POLICY IN ALL ASPECTS.

10. ALBERTA (LOUGHEED): ALBERTA ENERGY POLICIES WERE SET OUT AS FOLLOWS:

(A) ALL-OUT EFFORT TO USE ALBERTA OIL AND GAS TO MEET

CANADIAN ENERGY SHORTAGES (CITED OIL SHIPMENTS VIA PANAMA CANAL).

(B) OVER LONGER-TERM IT IS BASIC POLICY TO SELL
DEPLETING NON-RENEWABLE RESOURCES ONLY AT PRICES WHICH
REFLECT FAIR VALUE.

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